# City of Rockville Retirement Board

November 18, 2011

**PRESENT:** Alex Espinosa, Chairperson; Mark Pierzchala, Councilmember; Jack Rodgers, Citizen Representative; Anita McCombs, AAME Representative; Cpl. Chris Peck, FOP Representative; Kyle France, Union Representative and Carlos Vargas for the City Manager. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Tim Peifer, Financial Systems Manager; Daisy Harley, Personnel Administrator; Adam Reese, and Craig Graby , Hay Group; as well as Robert Liberto and Ryen Sherman, Segal Advisors.

The meeting commenced at 9:00 a.m. with introductions.

**I. Approval of Minutes September 2, 2011:**

Councilmember Pierzchala moved to accept the minutes, with the recommended changes from Mr. Rodgers that were made prior to the meeting, from the September 2, 2011 meeting as presented in the Agenda packet. Mr. Rodgers seconded. All were in favor.

**II. Review of April 1, 2011 Actuarial Valuation Report (FY 2012 & 2013):**

Mr. Graby, from the Hay Group, presented the Board with the report. He stated that all the information obtained from the Principal Financial Group, the previous actuary, was acceptable. He said there were no significant changes in plan provisions, methods, and assumptions since the last valuation. The liabilities were less than one percent lower in total than what Principal valued on March 31, 2010 and that there was good investment returns for the period reviewed. He said Plan costs were kept in line. He brought to the Board's attention that according to the GASB requirements the ARC can be done every other year. Mr. Graby continued presenting the report. Mr. Graby and Mr. Reese responded to various questions from Board members. Mr. Graby said that the first year to see the funded status to improve was 2007 to 2008.

Mr. Graby went on to explain that there is a group of 83 retirees and beneficiaries under the Benefit Index Option with Principal. The benefits due to these retirees are paid from the Principal accounts. He said that if the Benefit Index Option had been converted to annuities on March 31, 2011, the liability would increase from $9.68 million to $12.72 million, the increase due mainly to low interest rate environment in the annuity market. He went on to point out that if all of the Principal Funds were invested in the Bond fund then the Benefit Index would decrease from $18.04 million required to $14.73 million required. Mr. Espinosa said that there has been discussion about what to do with this issue and the Board will continue to monitor the Benefit Index. Mr. Cohen pointed out that this page is an improvement to the report that the Board requested.

The next part of the report discussed was funding projections on page six. Mr. Cohen pointed out that this page was the second change to the report as requested by the Board. As part of the actuarial valuation Hay Group was asked to provide projected contribution estimates for five years into the future based on the current year results. Page seven shows Maximum Supplemental Employee Contribution for all employee groups. He said the information in the chart is based on the way things are currently being done. Mr. Retirement Board Meeting November 18,2011 Graby continued to go through the report. Mr. Cohen stated that page 11 was the third major improvement to the report and can be improved over time. Mr. Cohen asked if the 2013 Valuation Report would be ready for the February 2012 meeting and Mr. Graby said yes and called it a lag report. Mr. Espinosa inquired why you would need the report then and Mr. Cohen stated it was needed for good budget information to set the 2013 budget. Mr. Cohen said the current way of doing it causes budget problems and the City needs to have the information six months before the budget is set. It would only be difficult for the first year and once in place will be consistent. Mr. Cohen got direction from the Board to have the Hay Group bring a FY 2013 valuation report based on roll forward information to the next meeting.
The Board accepted the FY 2012 Actuarial Valuation Report as presented by the Hay Group.

**IV. Review of Pension Plan Experience Study:**

Mr. Reese, from the Hay Group, presented the Experience Study Report. This was the first Experience Study that the Board had requested. He recommended that it is a good idea to have an experience study done every five years. He stated that it's important to see if funding is on track and that the plan sponsors should periodically evaluate the assumption used in the valuation report. Mr. Reese went on to describe the demographic and economic assumptions that the actuaries reviewed. Mr. Reese responded to several questions from the Board members in regards to inflation assumptions, terminations, mortality and interest earnings. Specific recommendations made by the Hay Group to change were:

- long-term inflation reduced from 3.5% to 2.75%
- salary Growth rates reduced by 0.75%
- investment return assumptions reduced from 7.75% to 7.5%
- termination assumptions based on age and service to service for all employee
- retirement assumption to move from first eligibility to age based table for all employees

The Board acknowledged that all future valuation reports would be based on the new assumptions. After much discussion, Cpl. Peck motioned to change economic and demographic assumptions on the Experience Study as recommended by the Hay Group and to include new assumptions on all future valuation reports. Councilmember Pierzchala seconded it. All were in favor.

**III. Review of FY 2013 Retiree Benefit Trust (RBT) Actuarial Valuation Report:**

Mr. Reese, from the Hay Group, presented the RBT Actuarial Valuation Report. He explained that the discount rate assumption used for the valuation is a blended rate of 7.22 percent. He said that this discount rate is a partially funded discount rate. The partial funding level was determined based on the fully funded discount rate of 7.75 percent as well as the unfunded discount rate of 4 percent. He said that fully funding the post-retirement medical benefits affects the projection in three ways. First, he stated that the liabilities are measured using a discount rate of 7.75 percent rather than the much lower discount rate of 4.0 percent, which would be appropriate if the City were not funding the ARC. Second, he said the assets in the fund will be used as an offset to the actuarial accrued liabilities, in turn lowering the unfunded actuarial accrued liability to be disclosed. Lastly, decreasing the unfunded actuarial accrued liability will decrease the annual required contribution. He explained that the GASB 45 implementation guide provides direction on the selection of the discount rate for employers that contribute more than pay-as-you-go (PAYG) but less than the ARC. After some more discussion with Mr. Reese and the Board, the report was accepted as presented. The Board thanked Mr. Reese for his time and Councilmember Pierzchala said that all the reports were very well laid out and understandable.

**V. Investment Performance Review 3rd Quarter End September 30,2011 Pension and Thrift Plan:**

Mr. Liberto and Mr. Sherman, from Segal Advisors, attended the meeting to review the third quarter performance reports for the Pension and Thrift Plans. Mr. Sherman informed the Board that Ms. Heyelleft for another firm. Mr. Vargas thanked him for stepping in. Segal reviewed the October update for the Pension Fund. Manning & Napier was the only manager that underperformed for the month. However, they are ahead of the benchmark over the three year period. The other managers are performing in line with expectations.

Prior to the meeting, Mr. Espinosa inquired about the fixed income portfolios exposure to bonds in Europe. Mr. Liberto and Mr. Sherman noted that the portfolio has a total of 7.25 percent in bonds outside of the U.S. and the only country they have exposure to in the PIIGS is Italy, with a 0.15percent allocation. The Board approved the updated guidelines, which reflects the new asset allocation policy. Segal Advisors will help coordinate the transfer to rebalance to the new targets and fund the new inflation hedging portfolio.

Mr. Liberto and Mr. Sherman reviewed the results of the Thrift Plan, which recently changed vendors from Principal to Prudential. They suggested showing a breakout of the Goal Maker funds in future reports. They will need to speak to Prudential to see what they can provide. They also suggested adding a stable value fund since the money market fund is earning nothing and 34 percent of the assets are in that fund. In addition, they suggested that Prudential attend the meetings on a semi-annual basis going forward and they should talk about fee disclosure at the next meeting. Mr. Liberto suggested to the Board that the Board consider adding a stable value product to the Thrift Plan. Reports were accepted as presented.

**VI. RB Trust Investment Performance Review 3rd Quarter end September 30, 2011:**

According to the staff memo Mr. Cohen stated that the Board does not have investment guidelines for the Trust. He pointed out that the fund objective and current positioning is explained on pages 10 and 11 of the attachment. He said that the fund is behind all benchmarks which are reflected on page 13 across all time periods. The attachment lists the asset allocation by sector and country on page 15. Pages 16-20 show the exact holdings by sector. They are the companies that need to be screened for the Divestment in Sudan policy. The results of the third quarter reflect the global equity market decline experienced and continued volatility in all areas of the U.S. economy.

**VII. Pension Plan Statement of Investment Policy:**

Mr. Cohen explained that the Board's Statement of Investment Policy has been modified to reflect that the Board's selection of investments must be in compliance with the Divestment from Sudan Ordinance. He explained that there were three significant changes being recommended. Page two includes a paragraph on the City's Group Annuity contract with Principal. This is based on the Board's decision from the June 10, 2011 meeting to leave $25 million invested with Principal Financial Group to satisfy the Benefit Index clause of the contract. Page six includes the Board's new Asset Deployment Policy that includes a 10 percent allocation to the asset class Inflation Hedging. The Performance Measurements on page nine and Account Investment Polices on page twelve have been included for this asset class. Page twenty two under Exhibit A has been added as well. Page ten under the Legal Compliance section reflects the inclusion of section 15-88 and 15-89 of the Rockville City Code, which approves the prohibition of investment of retirement funds in certain businesses conducting operations in Sudan. Councilmember Pierzchala made a motion to adopt the Pension Plan Statement of Investment Policy to include Plan Amendment language that was presented.

Cpl. Peck seconded. Mr. Rodgers abstained.

**VIII. Divestment from Sudan Ordinance:**

Mr. Cohen explained that the Mayor and Council adopted the Divestment from Sudan Ordinance on July 18,2011. It became effective on the date of adoption. He said we should be screening to make sure we are complying with the ordinance. Mr. Espinosa
feels the Board needs an independent screener who is an outside party to do the screening. Mr. Cohen asked if it was the direction of the Board to proceed with an RFP to have independent screenings done to keep the Board in compliance with the ordinance. Mr. Pierzchala made motion to get an independent screener to comply with the Divestment in Sudan ordinance.

Mr. Rodgers seconded it. All were in favor.

**IX. Size and Composition of the Retirement Board:**

Mr. Cohen said there was a specific request from the Mayor and Council seeking the Board's recommendation and comments as to whether or not a retiree should be a member of the Retirement Board. Councilmember Pierzchala said the Board should come up with its own recommendation. Mr. Vargas noted that retirement law does not specifically contain a provision to include retirees as Board members. Mr. Cohen said it would require a code change to make it happen. Mr. Vargas has a fiduciary concern as to whether or not they can take their retiree hat off to perform the fiduciary responsibility. Mr. Rodgers said it would be the same for current employee member. Mr. Cohen said that the person raising this issue is the same person requesting a COLA each year. Mr. Espinosa and Councilmember Pierzchala don't see the need to support it. Councilmember Pierzchala asked to have this item tabled until the next meeting and Mr. Espinosa agreed.

**X. Calendar 2012 Meeting Schedule:**

Mr. Espinosa would like to make changes to the calendar. He asked recommended that the Febmary meeting be moved to March 23 and the May meeting be moved to June 1 due to his County Budget schedule.

**XI. Future Agendas:**

The Board decided to add the Board Composition, FY 2013 Valuation Report, and Cash Flow Predictions, and Stable Value fund option as part of the performance reports for discussion.

Councilmember Pierzchala made motion to adjourn at 12:40. Mr. France seconded.

All were in favor.